

# Mall Redevelopment White Paper

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On behalf of the City of Sterling Heights

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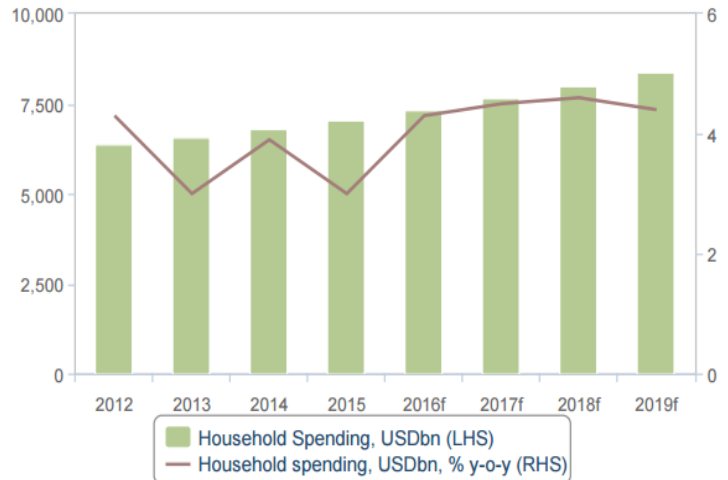
## US Retail Real Estate Industry

Despite the US economy reaching its healthiest levels since the 2008 recession, low inflationary policy, and loose borrowing conditions, US consumers are still cautious with spending on goods and buying from retail stores. Retail sales have been relatively stagnate, with consumers focusing more on dining out and more substantial purchases like cars. Nevertheless, lower unemployment and higher income figures suggest future growth in household spending and purchase of non-essential goods. Unemployment is at a 7-year low, forecasted to sink from 6.2% in 2014 to 5.5% in 2015, and household spending is expected to grow 2.96% over 2015, approximately \$7.03 billion, and another 4.33% in 2016.

According to *BMI Research's 2016 United States Real Estate Report*,<sup>1</sup> retail real estate is currently in a sweet spot where luxury retailers are benefitting from increasing income amongst high earners, especially in key shopping districts such as New York City and Los Angeles. However, online distribution and E-commerce are booming and more Americans are opting to purchase goods through these platforms, posing a risk to the longevity of high-street and brick and mortar stores.

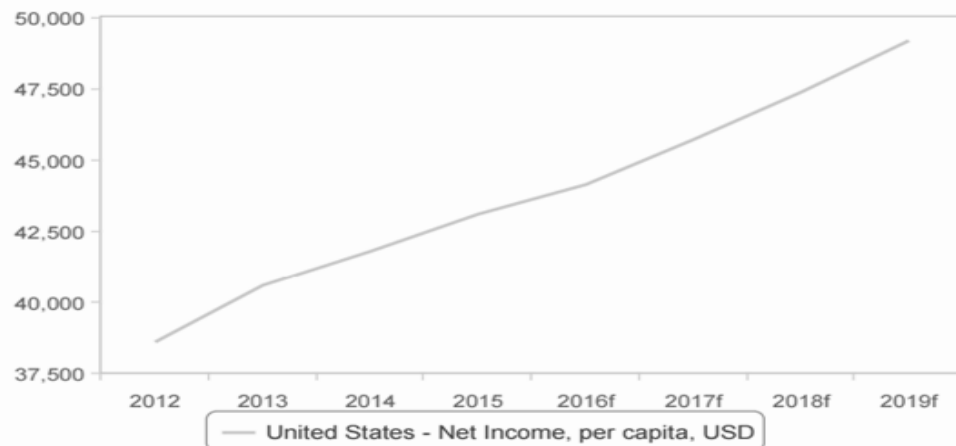
### Rising Spending Promotes Greater Demand

Household Spending In USDbn & % growth y-o-y (2012-2019)



### Growing Affluence Represents Opportunity For Development

Net Income Per Capita In USD (2012-2019)



f = BMI forecast. Source: BMI/National Statistics

<sup>1</sup> (BMI Research: A FitchGroup Company, 2016)

## Key Retail Developers

Simon Property Group and General Growth Properties maintain the key player positions in the US.



*Simon Property Group* is the US's largest Real Estate Investment Trust and a S&P 100 company. It owns or has interest in 230 retail real properties, including malls, premium outlets, and The Mills comprising 190 million square feet in North America, Europe and Asia.



*General Growth Properties, Inc. (GGP)* is an S&P 500 company and owns and manages shopping malls throughout the US. It currently operates 130 properties with an approximate value of 46 billion US dollars. GGP is the current owner and manager of Lakeside Mall in Sterling Heights, Michigan.

## The Rise, Fall, and Rebirth of the American Mall



*Providence Arcade in Providence, Rhode Island*

Considered to be America's first indoor mall, Providence Arcade has been redeveloped into a mixed-use preservation of its original grandeur, featuring freshly designed retail and restaurants space and 48 micro-lofts—small, efficiently designed living spaces.

During the 1960s and 1970s, over 1,500 malls were built across the United States. Demand for the million square-foot enclosed retail centers anchored by department store giants was fueled by urban flight—thousands left decaying urban centers for the manicured lawns and white fences of the suburbs, and retail followed suit. Malls were planted in densely populated locations and quickly became regional destinations, offering a one-stop shop for shopping, dining, and entertainment to residents living within a quick driving distance away.

However, since its peak in the 1970s, the American mall has been dying a slow and steady death. Today's millennials have re-embraced city living. Americans' preferences have shifted from traditional

malls towards "lifestyle centers," or places that incorporate live, work, and play elements. In addition, the boom in e-commerce has negated the value of the physical space and large square footage that once made malls appealing. According to mall tenants and customers alike, traditional malls are too large, the temperature controlled environments are too artificial, department stores are not the draws they once were, mall parking lots are too sprawling, and mall parking garages are too arduous to navigate.<sup>2</sup> Many retailers are closing stores, downsizing, and turning to more creative and efficient use of store space. What has resulted is an overabundance of retail space in the United States. A Cushman & Wakefield Inc. report found that the US "leads the world in shopping center 'gross leasable area' per capita at nearly 23 square feet per person, well ahead of other countries."<sup>3</sup> Of the malls that were built during the three decades leading up to the early 2000s, perhaps only 100-150 will survive the recent trends in the retail market.

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<sup>2</sup> (Misonzhnik, 2011)

<sup>3</sup> (Collings, 2014)

## Classifying Today's Malls

Real estate industry experts have identified three class categories for today's malls. *Class "A"* malls usually generate somewhere north of \$500 in retail sales per square foot on average, boast quality anchors and tenants, and are among the top properties in their region (National Real Estate Investor newsletter). Anchors such as Nordstrom or Bloomingdale's, and tenants such as Apple, Michael Kors and Tory Burch tend to populate the corridors. *Somerset Collections*, located in Troy, Michigan, is an example of a class "A" mall located in the Southeast Michigan region.



*Somerset Collections in Troy, MI*



*Lakeside Mall in Sterling Heights, MI*

*Class "B"* malls are often defined by their location in secondary or tertiary markets but they are best identified by their sales per square foot performance, typically falling between \$250 and \$500 per square foot. *Class "C"* malls generate less than \$250 in retail per square foot. Both *Class "B"* and *"C"* malls typically have vacancies, perhaps even an abandoned anchor space, and feature less desirable tenants, such as JC Penney or Sears.<sup>4</sup> *Class "B"* malls in good markets without a lot of competition are likely to hang on to their retailers, however a *Class "B"* mall facing a lot of competition and weak occupancy will have difficulty keeping its tenants. *Lakeside Mall* in Sterling Heights, Michigan, is a clear example of a struggling *Class "B"* mall, and a prime redevelopment opportunity.

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<sup>4</sup> (Popovec, 2014)

## Five Most Common Mall Redevelopment Models<sup>5</sup>

### Mixed-Use Town Center or Urban District

This redevelopment model is the most prevalent, and thought to be the most successful. It features a mix of uses, including retail space, residential units, public spaces, office space, and civic or cultural uses.



### Single-Use Development

This model involves demolishing the existing mall structure and replacing it with big-box retail or another single use, such as an office park or district, a development of garden apartments or condominiums, an entertainment complex, or civic facilities.



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<sup>5</sup> Wade Trim: *Lakeside Mall Sustainability Assessment* (2015)

### Adaptive Reuse

This model involves retaining the mall structure and adapting it for a new use. Single use is typical, and can range from a customer-service call center, to a church, to an educational institution. Rackspace, a web-hosting company in San Antonio, Texas, transformed the decrepit Windsor Park Mall in northeast San Antonio into its corporate headquarters, as pictured to the right.



### Mall Plus

This model involves repositioning the mall with additional entertainment features, offices, a hotel, or residences, or retaining the existing mall structure, but allowing for design improvements such as open spaces and pedestrian connections between uses.

### Reinvested Mall

This model involves renovating the building and changing the tenant mix to draw customers back.

## Case Study: Belmar of Lakewood in Lakewood, Colorado

Perhaps one of the most notable and successful mall redevelopments in recent history is *Belmar*, located in Lakewood, Colorado. The 104-acre site was once home to the Villa Italia Shopping Center, and before that, home to May Bonfils-Stanton's Belmar Mansion. The Villa Italia Shopping Center, an enclosed shopping mall, opened in 1966 and regularly attracted shoppers from as far as Wyoming and Kansas. Three years later, thirteen Colorado towns combined to incorporate Lakewood and the mall quickly became the one cohesive force that put Lakewood on the map. While Villa Italia was the city's main hangout, it was designed to make money, not to host demonstrations, citywide celebrations or an array of public proceedings. Lakewood officials recognized this downfall, and drafted plans to build a civic center close by. From the 1970s to the 1990s, Lakewood constructed a city hall, library, law enforcement complex and a performing arts center near the city's social hub. However, the 90s also brought a whole host of challenges, including newer shopping complexes and changing customer preferences, threatening the success of the mall. Villa Italia ultimately closed in 2001 after Denver-based developer Continuum Partners acquired the property.



Plans to redevelop the site into what is now known as *Belmar of Lakewood* commenced before the mall's closing, and construction moved swiftly shortly after. Community leaders, the developer, and local and state government came together to ensure the development's success. The great collaboration between the different stakeholders brought opportunities to explore the use of green bonds, which were a tax-exempt financing method. The bonds were intended as an incentive to encourage developers to use energy-efficient technology and building materials.<sup>6</sup> Brownfield incentives were also explored.<sup>7</sup>

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<sup>6</sup> (Soraghan, 2003)

<sup>7</sup> (McGuire, 2005)

Belmar opened to the public in 2004. The mall now boasts over 80 local boutiques, national brands, and restaurants, entertainment and events, as well as live + work arrangements. Original reports valued the project at \$750 million, with a creation of 4,200 construction jobs, and 5,200 on-site jobs once built. The job figures will undoubtedly see a significant increase with the addition of a new Hyatt House hotel slated to open in January of 2016, along with five new residential projects currently under construction.<sup>8</sup>



*Belmar plan renderings, Van Meter Williams Pollack*

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<sup>8</sup> (Tatum, 2004)



*Belmar residential complexes*



*Belmar outdoor plaza at night*



*Belmar apartment complexes*



*The Rink at Belmar*

## Case Study 2: Wonderland Village in Livonia, MI

Wonderland Village, located at the corners of Plymouth and Middlebelt Roads in Livonia, Michigan, started out as an open-air venue. It was built on a 74-acre site and originally encompassed 559,700



*Wonderland Village, circa 1970s*

leasable square feet. The complex was anchored by a 2-level (139,300 square foot) Dearborn-based Federal department store and a 2-level (195,100 square foot) Montgomery Ward. Louis G. Redstone, the principal architect of the project, and his team incorporated a central mallway featuring three fountains, five statues and three large murals to achieve a “festive and colorful environment” with “sprightly, good-natured attractive surroundings.” The mall was formally dedicated in August of 1959.

During the next three decades, a number of retail rivals opened within close

proximity: Livonia Mall four miles north (1964), Westland Center three miles southwest (1965), Fairlane Town Center six and a half miles southeast (1976), and Laurel Park Place five miles northwest (1989). Wonderland Center, as it was called in its earlier years, underwent a \$32 million renovation that connected the existing anchors and store blocks with climate-controlled mallways and added 100,000 square feet of shopping space. The efforts were spearheaded by Livonia-based Schostak Brothers Company, who established full ownership of the property in 1983. The remodeled retail hub was christened Wonderland Mall in November 1986 and underwent a second major expansion and a number of renovations, adding on hundreds of thousands of square footage and an “Entertainment Wing” at the southwest corner of the complex.

In the early 2000s, the impetus to renovate and re-renovate lost momentum, and Wonderland Mall joined the ranks of America’s dead and dying mid-20<sup>th</sup> century shopping centers. This was exacerbated by the perception that the mall had become a haven for crime.



Schostak Brothers decided to do a major makeover of the site, including a complete demolition of the existing structure, with an open-air power center to be built as its replacement. The mall closed in early 2003, with only exterior-entranced Dunham's, Office Max and Target remaining in business. By 2006, when demolition commenced, only Target was left standing.<sup>9</sup>

A plan to build a Wal-Mart SuperCenter was met with exorbitant community opposition, but the retailer eventually prevailed and became the co-anchor, alongside Target, of the 427,700 square foot complex. Wonderland Village, as it was renamed, opened in July of 2007 and is home to national big box retailers such as Costco, Meijer's and Menard's, and offers multi-tenant opportunities for restaurants, service companies, and retailers.<sup>10</sup>



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<sup>9</sup> (Mall Hall of Fame, 2009)

<sup>10</sup> (Schostak Brothers & Company, 2015)

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